

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name LIVINGSTON COUNTY ROAD COMMISSIO	County LIVINGSTON
Fiscal Year End 12/31/2006		Opinion Date JUNE 18, 2007		Date Audit Report Submitted to State JULY 17, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

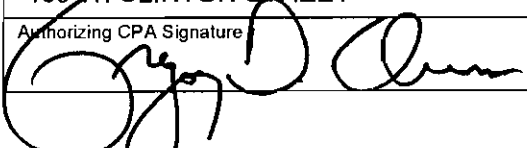
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

☒ ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	To be forwarded at a later date.		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) BREDERNITZ, WAGNER & CO., P.C.		Telephone Number 517-546-2130		
Street Address 109 W. CLINTON STREET		City HOWELL	State MI	Zip 48843
Authorizing CPA Signature 		Printed Name GREGORY D. CLUM		License Number 1101014127

LIVINGSTON COUNTY
ROAD COMMISSION

FINANCIAL REPORT
December 31, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of County
Road Commissioners
Livingston County
Howell, Michigan

We have audited the accompanying basic financial statements (as listed in the table of contents) of Livingston County Road Commission, a component unit of Livingston County, as of and for the year ended December 31, 2006. These financial statements are the responsibility of Livingston County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with the standards as provided in Public Act 71 of 1919, as amended, being Section 21.41 of the Michigan Compiled Laws. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Livingston County Road Commission as of December 31, 2006, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (pages 3-13) and the budgetary comparison information (pages 40-42) are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Livingston County Road Commission's basic financial statements taken as a whole. The introductory section, budgetary comparison information and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, budgetary comparison information and other supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Breckin, Wagner & Co., P.C.

Howell, Michigan
June 18, 2007

LIVINGSTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2006 (Unaudited)

Our discussion and analysis of Livingston County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down among primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all the Road Commission's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure Livingston County Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds, reporting the operations in more detail than the government-wide statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2006
(Unaudited)

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the financial status of the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's development and growth, the condition of the Road Commission's roads, and changes in the law related to motor vehicle taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has three funds, the special revenue fund, the debt service fund, and the fiduciary fund.

All of the Road Commission's activities are accounted for in the special revenue fund. The debt service fund accounts for the capital lease payments to the Livingston County Building Authority. These funds are governmental fund types. Our analysis of the Road Commission's major fund, the special revenue fund, begins on page 8. The fund financial statements begin on page 16 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of the funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2006
(Unaudited)

Reporting the Road Commission as a Whole (Concluded)

Fund Financial Statements (Concluded)

operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental funds in a reconciliation following the fund financial statements.

The fiduciary fund statements provide financial information about activities for which Livingston County Road Commission acts solely as a trustee or agent for the benefit of the employees of the Road Commission.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 7.98%, or \$8,938,071, from \$112,057,652 to \$120,995,723 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital fixed assets, net of related debt) are considered restricted. The restricted net assets increased \$1,067,532 during 2006.

The investment in capital fixed assets, net of related debt, increased by \$7,870,539. The increase in net assets is primarily the result of the increase in infrastructure of \$14,453,471 for the year 2006.

Also, during 2006, the net book value of the road infrastructure that had been dedicated to Livingston County Road Commission between 1980 and 2005 was determined. The net book value of this infrastructure has been added to the net asset balance as of December 31, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2006
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Continued)

Net Assets (Concluded)

Net assets as of December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 6,455,022	6,671,500
Capital Assets, Net	<u>119,634,652</u>	<u>110,973,865</u>
Total Assets	<u>126,089,674</u>	<u>117,645,365</u>
Long-Term Debt Outstanding	4,566,250	5,183,998
Other Liabilities	<u>527,701</u>	<u>403,715</u>
Total Liabilities	<u>5,093,951</u>	<u>5,587,713</u>
Net Assets		
Invested in Capital Fixed		
Assets Net of Debt	115,460,216	107,589,677
Restricted	<u>5,535,507</u>	<u>4,467,975</u>
Total Net Assets	<u>\$120,995,723</u>	<u>112,057,652</u>

The amounts for December 31, 2005, have been restated to reflect the net book value of the road infrastructure dedicated to Livingston County Road Commission between 1980 and 2005. The net book value of this infrastructure was \$37,284,869 as of December 31, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2006
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Continued)

Change in Net Assets

A comparative summary of changes in net assets for the years ended December 31, 2006 and 2005, is as follows:

	<u>Governmental Activities</u>	
	<u>12/31/06</u>	<u>12/31/05</u>
Program Revenues:		
State grants	\$12,365,237	12,827,749
Federal grants	1,898,184	3,132,924
Charges for services	32,012	72,957
Contributions from local units	3,096,540	3,295,372
Interest income	34,819	39,438
Investment income	128,600	123,295
Other revenues	6,969,652	256,860
General Revenue:		
Gain on equipment disposal	<u>82,504</u>	<u>453,305</u>
Total Revenues	<u>24,607,548</u>	<u>20,201,900</u>
Expenses:		
Public works	15,454,652	13,740,128
Interest expense	<u>214,825</u>	<u>189,759</u>
Total Expenses	<u>15,669,477</u>	<u>13,929,887</u>
Increase in Net Assets	<u>\$ 8,938,071</u>	<u>6,272,013</u>

The summary of changes in net assets for the year ended December 31, 2005, does not contain the depreciation expense associated with the dedicated road infrastructure received by the Road Commission between 1980 and 2005. The net book value of this infrastructure is the only amount that has been included in the information for the year ended December 31, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2006
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Continued)

The Road Commission's Fund

The Road Commission's special revenue fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2006, the fund balance of the special revenue fund decreased \$219,896, as compared to a decrease of \$577,005 in the fund balance for the year ended December 31, 2005. Total operating revenues were \$18,600,419, a decrease of \$1,835,252 as compared to last year. This change in revenues resulted primarily from a decrease in federal aid of \$1,234,740.

For the year ended December 31, 2006, total expenditures were \$18,289,485, a decrease of \$2,723,191, as compared to last year. There was a decrease in net capital outlay in the amount of \$506,347 from the prior year.

A summary of changes in the Operating Fund is shown on the following page.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2006
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Concluded)

The Road Commission's Fund (Concluded)

	<u>12/31/2006</u>	<u>12/31/2005</u>	<u>Variance</u>	<u>Variance %</u>
Revenues:				
State grants	\$ 12,365,237	12,827,749	(462,512)	(3.61) %
Federal grants	1,898,184	3,132,924	(1,234,740)	(39.41)
Charges for services	32,012	72,957	(40,945)	(56.12)
Contributions from local units	3,186,507	3,385,338	(198,831)	(5.87)
Special assessments	36,395	25,382	11,013	43.39
Interest income	34,819	39,438	(4,619)	(11.71)
Investment income	128,600	123,295	5,305	4.30
Proceeds from disposal of assets	82,504	571,728	(489,224)	(85.57)
Other revenues	836,161	256,860	579,301	225.53
Total revenues	<u>18,600,419</u>	<u>20,435,671</u>	<u>(1,835,252)</u>	<u>(8.98)</u>
Expenditures:				
Primary road	6,422,478	8,219,633	(1,797,155)	(21.86)
Local road	9,117,248	9,449,372	(332,124)	(3.51)
Primary road structures	949,475	351,507	597,968	170.12
Local road structures	212,116	767,866	(555,750)	(72.38)
Roadside parks	5,286	5,055	231	4.57
Equipment	580,506	271,536	308,970	113.79
Administrative	744,706	667,888	76,818	11.50
Capital outlay	(234,821)	(349,506)	114,685	(32.81)
Debt service:				
Principal retirement	802,703	1,446,072	(643,369)	(44.49)
Interest and fiscal charges	220,618	183,253	37,365	20.39
Total expenditures	<u>18,820,315</u>	<u>21,012,676</u>	<u>(2,192,361)</u>	<u>(10.43)</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(219,896)</u>	<u>(577,005)</u>	<u>357,109</u>	<u>(61.89)</u>
Other financing sources (uses):				
Operating transfers in	530,830	478,170	52,660	11.01
Operating transfers out	<u>(530,830)</u>	<u>(478,170)</u>	<u>(52,660)</u>	<u>(11.01)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of revenues and other sources over (under) expenditures and other uses	<u>(219,896)</u>	<u>(577,005)</u>	<u>357,109</u>	<u>(61.89)</u>
Fund Balances - beginning	<u>5,541,969</u>	<u>6,118,974</u>	<u>(577,005)</u>	<u>(9.43)</u>
Fund Balances - ending	<u>\$ 5,322,073</u>	<u>5,541,969</u>	<u>(219,896)</u>	<u>(3.97)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at the time. During the year, the Board of County Road Commissioners acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$383,635 higher than the original budget primarily due to the Road Commission receiving additional township contributions. The actual revenue recognized during 2006 was higher than the final amended budget by \$1,259,503. This difference is due to the fact that the final amended budget did not contain the federal aid portion of a project that was started in 2006.

The final amended expenditure budget for 2006 was \$947,468 higher than the original budget primarily due to higher than anticipated local road maintenance costs. The actual expenditures recognized during 2006 exceeded the final amended budget by \$1,054,413. This difference is due to the final amended budget not containing the accounts payable at December 31, 2006, and the construction costs of the federal aid project indicated in the preceding paragraph. There were some unfavorable variance expenditure line-items as disclosed in Note 15 of the financial statement notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2006
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2006, the Road Commission had invested \$119,634,652 in capital assets. This amount represents a net increase (including additions and deductions) of \$8,660,787 or 7.80% as follows:

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Variance</u>	<u>Variance %</u>
Capital assets not being depreciated:				
Land and improvements	\$ 267,939	267,939	-	-
Land easements/right-of-way	25,064,777	24,212,908	851,869	3.52
Subtotal	<u>25,332,716</u>	<u>24,480,847</u>	<u>851,869</u>	<u>3.48</u>
Capital assets being depreciated:				
Buildings	7,008,423	6,998,316	10,107	0.14
Road equipment	8,897,575	8,664,095	233,480	2.69
Office equipment	195,200	193,060	2,140	1.11
Engineering equipment	460,872	417,177	43,695	10.47
Shop equipment	110,472	110,472	-	-
Yard and storage	71,497	71,497	-	-
Infrastructure	152,663,066	138,209,595	14,453,471	10.46
Depletable assets	488,543	488,543	-	-
Subtotal	<u>169,895,648</u>	<u>155,152,755</u>	<u>14,742,893</u>	<u>9.50</u>
Total capital assets	195,228,364	179,633,602	15,594,762	8.68
Total accumulated depreciation	<u>75,593,712</u>	<u>68,659,737</u>	<u>6,933,975</u>	<u>10.10</u>
Total net capital assets	\$ <u><u>119,634,652</u></u>	<u><u>110,973,865</u></u>	<u><u>8,660,787</u></u>	<u>7.80</u>

The land/right-of-way and infrastructure line items as of December 31, 2005, have been restated to include the net book value of the road infrastructure dedicated to the Road Commission between 1980 and 2005. This net book value amount is \$37,284,869.

The Road Commission reported the infrastructure acquired during the current year in the amount of \$14,453,471. The infrastructure recorded is depreciated over the estimated useful lives of the infrastructure assets using the half-year convention of straight-line depreciation. The infrastructure is financed through federal, state, and local contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2006
(Unaudited)

Capital Assets and Debt Administration (Concluded)

Capital Assets (Concluded)

This year's major capital asset additions included the following:

Bridge construction	\$ 1,117,102
Various reconstruction projects, easements and right-of-way	14,188,238
Other equipment	<u>949,078</u>
Total additions	<u>\$16,254,418</u>

Each year the Road Commission disposes of obsolete and worn out equipment. During 2006, the Road Commission traded in and/or disposed of fully depreciated road equipment with a net book value of \$-0-.

Debt

At the year end, the Road Commission had \$4,189,525 in bonds, sewer assessments, and installment purchase agreements versus \$4,806,935 as of December 31, 2005, a decrease of 12.84% as shown below:

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Decrease</u>	<u>Decrease %</u>
Bonds payable	\$1,135,000	1,400,000	265,000	18.93%
Sewer assessment	15,089	22,747	7,658	33.67
Capital lease agreements	<u>3,039,436</u>	<u>3,384,188</u>	<u>344,752</u>	10.19
Total	<u>\$4,189,525</u>	<u>4,806,935</u>	<u>617,410</u>	12.84

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note 8 of the financial statement notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Concluded)
For the Year Ended December 31, 2006
(Unaudited)

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission derives approximately 60%-70% of its revenues from the motor vehicle tax collected. Using Michigan Department of Transportation projection, it is estimated that the Road Commission will receive fewer Michigan Transportation Fund revenues in 2007 as in 2006, due to a significant decrease in vehicle registrations. The Road Commission received approximately 17% of its revenues from township contributions during 2006. This amount fluctuates with the approved road projects and depends on which townships choose to participate and how much the townships can afford to contribute. During 2007, we expect to receive at least \$1,300,000 in federal and state grants for road projects, some of which was deferred from 2006.

The above items were considered when adopting the budget for 2007. Amounts available for appropriation in the budget are \$17,868,135, a decrease of 5.6% under the 2006 final amended budget of \$18,928,525.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Livingston County Road Commission's administrative offices at (517)546-4250, extension 116.

LIVINGSTON COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2006

ASSETS

Cash and cash investments	\$ 2,192,191
Accounts receivable (Note 4):	
State highway - other	1,893,123
Due on county road agreements	827,583
Due on special assessments	192,042
Sundry accounts	107,078
Inventories:	
Equipment, fuel, materials and parts	456,245
Road materials	786,760
Capital assets net of accumulated depreciation (Note 5)	<u>119,634,652</u>
Total Assets	<u>126,089,674</u>

LIABILITIES

Current Liabilities:	
Accounts payable	299,155
Due to State of Michigan	118,726
Wages payable	63,163
Developers' escrow	10,029
Interest payable	36,628
Long-term debt - due within one year (Note 8)	<u>1,379,777</u>
Total Current Liabilities	1,907,478
Noncurrent Liabilities:	
Long-term debt - due after one year (Note 8)	<u>3,186,473</u>
Total Liabilities	<u>5,093,951</u>

NET ASSETS

Investment in capital fixed assets net of related debt	115,460,216
Restricted for County Road	<u>5,535,507</u>
Total Net Assets	<u>\$ 120,995,723</u>

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

Program Expenses:	
Primary road	\$ 3,559,425
Local road	3,925,551
Primary road structures	18,135
Local road structures	26,354
Roadside parks	5,286
Administrative	744,368
Equipment - net	580,506
Infrastructure depreciation	6,595,027
Interest expense	<u>214,825</u>
Total Program Expenses	<u>15,669,477</u>
Program Revenue:	
State grants	12,365,237
Federal grants	1,898,184
Charges for services	32,012
Contributions from local units	3,096,540
Interest income	34,819
Investment income	128,600
Other revenues	<u>6,969,652</u>
Total Program Revenue	<u>24,525,044</u>
Net Program Revenue	<u>8,855,567</u>
General Revenue:	
Gain on equipment disposal	<u>82,504</u>
Change in Net Assets	<u>8,938,071</u>
Net Assets - January 1, 2006	74,772,783
Prior period adjustment (Note 17)	<u>37,284,869</u>
Restated Net Assets - January 1, 2006	<u>112,057,652</u>
Net Assets - December 31, 2006	<u>\$ 120,995,723</u>

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
GOVERNMENTAL FUNDS
BALANCE SHEET

December 31, 2006

ASSETS	Special Revenue	Debt Service	Total
Cash and cash investments (Notes 2 and 3)	\$ 2,192,191	-	2,192,191
Accounts receivable (Note 4):			
State highway - other	1,893,123	-	1,893,123
Due on county road agreements	827,583	-	827,583
Due on special assessments	192,042	-	192,042
Sundry accounts	107,078	-	107,078
Inventories:			
Equipment, fuel, materials and parts	456,245	-	456,245
Road materials	786,760	-	786,760
Total Assets	\$ 6,455,022	-	6,455,022
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 299,155	-	299,155
Wages payable	63,163	-	63,163
Due to State of Michigan	118,726	-	118,726
Deferred revenue (Note 4)	641,876	-	641,876
Developers' escrow	10,029	-	10,029
Total Liabilities	1,132,949	-	1,132,949
Fund Equity:			
Fund Balances:			
Reserved for inventories	1,243,005	-	1,243,005
Unreserved:			
Undesignated	4,079,068	-	4,079,068
Total Fund Equity	5,322,073	-	5,322,073
Total Liabilities and Fund Equity	\$ 6,455,022	-	6,455,022

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

For the Year Ended December 31, 2006

Total Governmental Fund Balance	\$ 5,322,073
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	119,634,652
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Deferred revenue is not available to pay for current period expenditures and therefore is not reported in the governmental funds.	641,876
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Accrued interest expense does not require the use of current financial resources and therefore is not reported as an expenditure in the governmental funds.	(36,628)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(4,566,250)</u>
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Net Assets of Governmental Activities	\$ <u>120,995,723</u>
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The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
GOVERNMENTAL FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2006

	Special Revenue	Debt Service	Total
Revenues:			
State grants	\$ 12,365,237	-	12,365,237
Federal grants	1,898,184	-	1,898,184
Charges for services	32,012	-	32,012
Contributions from local units	3,186,507	-	3,186,507
Special assessments	36,395	-	36,395
Interest income	34,819	-	34,819
Investment income	128,600	-	128,600
Proceeds from sale of assets	82,504	-	82,504
Other revenues	836,161	-	836,161
Total Revenues	<u>18,600,419</u>	<u>-</u>	<u>18,600,419</u>
Expenditures:			
Primary road	6,422,478	-	6,422,478
Local road	9,117,248	-	9,117,248
Primary road structures	949,475	-	949,475
Local road structures	212,116	-	212,116
Roadside parks	5,286	-	5,286
Equipment	580,506	-	580,506
Administrative	744,706	-	744,706
Net capital outlay (Note 6)	(234,821)	-	(234,821)
Debt service:			
Principal retirement	387,703	415,000	802,703
Interest and fiscal charges	104,788	115,830	220,618
Total Expenditures	<u>18,289,485</u>	<u>530,830</u>	<u>18,820,315</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>310,934</u>	<u>(530,830)</u>	<u>(219,896)</u>
Other Financing Sources (Uses):			
Operating transfers in	-	530,830	530,830
Operating transfers out	(530,830)	-	(530,830)
Total Other Financing Sources (Uses)	<u>(530,830)</u>	<u>530,830</u>	<u>-</u>
Deficiency of Revenues and Other Sources under Expenditures and Other Uses	<u>(219,896)</u>	<u>-</u>	<u>(219,896)</u>
Fund Balances - January 1, 2006	<u>5,541,969</u>	<u>-</u>	<u>5,541,969</u>
Fund Balances - December 31, 2006	<u>\$ 5,322,073</u>	<u>-</u>	<u>5,322,073</u>

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
 RECONCILIATION OF THE COMBINED STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
 FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

Net change in fund balance - total governmental funds	\$	(219,896)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		2,342,003
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Governmental funds do not report contributed infrastructure. However, in the statement of activities, the in-kind revenue from the receipt of the contributed infrastructure is recorded as current year revenue.		6,133,492
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Repayment of notes/leases payable is an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net assets.		802,703
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Decrease in interest expense		5,793
Decrease in compensated absences		338

Deferred revenues collected during the year are not considered current revenues in the statement of activities.		(126,362)
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Change in Net Assets of Governmental Activities	\$	<u>8,938,071</u>
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LIVINGSTON COUNTY ROAD COMMISSION
FIDUCIARY FUND
STATEMENT OF NET ASSETS

December 31, 2006

ASSETS

Mutual funds	\$ <u>2,677,537</u>
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NET ASSETS

Held in trust for employee benefits	\$ <u>2,677,537</u>
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The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
FIDUCIARY FUND
STATEMENT OF CHANGE IN NET ASSETS

For the Year Ended December 31, 2006

Additions:	
Net investment earnings	\$ 174,346
Employee contributions	<u>198,599</u>
Total additions	<u>372,945</u>
Deductions:	
Asset fees	10,854
Employee withdrawals/transfers	<u>186,081</u>
Total deductions	<u>196,935</u>
Change in net assets	176,010
Net assets - January 1, 2006	<u>2,501,527</u>
Net assets - December 31, 2006	<u>\$ 2,677,537</u>

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION

Definition of the reporting entity:

Livingston County Road Commission, which is established pursuant to the county road law (MCL 224.1), is governed by an appointed three member Board of County Road Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the Livingston County Board of Commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of Livingston County, as approved by the county electors, and would be included as part of the County's total tax levy, as well as reported in the Livingston County Road Fund.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 The Financial Reporting Entity, these financial statements present the Local Unit which is a component unit of Livingston County. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on the above criteria, the financial statements present Livingston County Road Commission, a discreetly presented component unit of Livingston County.

Basis of presentation:

Government-wide Financial Statements:

The government-wide financial statements, i.e. the Statement of Net Assets and the Statement of Changes in Net Assets, report information on all of the activities of Livingston County Road Commission. There are two funds reported in the government-wide financial statements, the Special Revenue Fund (which serves as the general operating fund) and the Debt Service Fund. The Special Revenue Fund is the only major fund.

The Statement of Net Assets presents Livingston County Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

Basis of presentation (continued):

Government-wide Financial Statements (concluded):

1. Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment,
2. Grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items are not considered program revenues and are reported instead as general revenue.

Fund Financial Statements:

In order to ensure observance of limitations and restrictions placed on the use of the resources available to Livingston County Road Commission, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds which are maintained in accordance with the activities or objectives specified. A brief description of each of the types of funds, as they apply to the Livingston County Road Commission, is noted below.

Governmental Funds:

Governmental funds include the following fund types:

Special Revenue Fund: This fund is used to account for specific revenues which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements. The Road Commission Operating Fund is used to control expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for street and highway purposes.

Debt Service Fund: This fund accounts for the accumulation of resources for, and the payment of, interest and principal on general long-term debt. This fund is being used to account for the repayment of long-term debt used to finance Livingston County Road Commission's current facility.

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION (Concluded)

Basis of presentation (concluded):

Fiduciary Fund:

The fiduciary fund accounts for assets held by the government in a trustee capacity on behalf of others. This fund is accounted for using the accrual basis of accounting.

Trust Fund: This fund accounts for assets held by the governmental unit in a trustee capacity for individuals. The only trust fund of Livingston County Road Commission is an expendable trust fund for deferred compensation of employees.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Livingston County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards board (GASB) is the standard-setting body for governmental accounting and financial reporting. A summary of the significant accounting policies used by Livingston County Road Commission is listed below.

Measurement Focus/Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting (concluded)

Michigan transportation funds, grants, permits, township contributions, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash and Cash Equivalents:

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Investments:

Investments are stated at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institution, to the interest bearing account.

Inventories:

Inventories are stated at cost as determined using an average costing method. Inventory items are charged to road construction, equipment maintenance, repairs, and operations as used.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements.

Capital assets are defined by Livingston County Road Commission as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost at the time of purchase or construction. Donated capital assets and donated infrastructure (dedicated roads) are recorded at estimated fair market value at the date of donation.

Depreciation:

Depreciation is computed on the sum-of-the-years-digits method for road equipment and the straight-line method for all other fixed assets and for infrastructure.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation (concluded):

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, in the Fund Financial Statements, the annual depreciation expense does not affect the available operating equity of the Special Revenue Fund.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Engineering equipment	4 to 10 years
Office equipment	4 to 10 years
Yard and storage equipment	10 to 20 years
Infrastructure-roads	8 to 30 years
Infrastructure-bridges	12 to 50 years

Capitalized Interest:

There were no capitalized interest costs incurred by Livingston County Road Commission during the year ended December 31, 2006.

Compensated Absences (Vacation and Sick Leave):

The estimated portion of the liability for vested vacation and sick leave benefits attributable to Livingston County Road Commission's governmental funds is recorded as an expenditure and liability in the respective funds. The amount payable to employees for compensated absences is included in the government-wide financial statements. Please see Note 7 for more detail.

Non-Exchange Transactions:

Livingston County Road Commission participates in voluntary non-exchange transactions with the Michigan Department of Transportation in the form of contracted road construction projects. The Road Commission records the revenue and corresponding construction expense throughout the year as the project completion vouchers are received. These amounts have been included as infrastructure in the government-wide Statement of Net Assets.

Long-term Obligations:

In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities of the Special Revenue Fund.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity:

Reserves of fund equity in the Fund Financial Statements represent portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Compensation Plan:

Livingston County Road Commission offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. Effective January 1, 1997, the assets of the plan were transferred to a trust held in a custodial account as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. In accordance with GASB Statement No. 32 requirements, the assets of the trust are reported in a fiduciary fund and are not reflected in Livingston County Road Commission's financial statements. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The Administrator, Nationwide Retirement Solutions, is agent of the employer for purposes of providing direction to the custodian of the custodial account, from time to time, as to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters.

At December 31, 2006, the carrying amount and market value of the investments of the deferred compensation plan held by Nationwide Retirement Solutions was \$2,677,537.

Budgets and Budgetary Accounting:

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, MCL 141.421, which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's managing director

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Budgets and Budgetary Accounting (concluded):

prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and approves the budget. The budget is amended as necessary during the year and all amendments are approved by the Board. Appropriations lapse at year end. The budget is prepared on the modified accrual basis of accounting, which is the same basis used for the fund financial statements.

Note 3. CASH AND CASH INVESTMENTS

Deposits are carried at cost. The Livingston County Treasurer handles investments for the Road Commission. Deposits of Livingston County Road Commission are in the name of the Livingston County Treasurer. Livingston County Road Commission follows the same investment policy as Livingston County. Livingston County's investment policy authorizes the County Treasurer to invest in the following types of securities: bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; United States or Federal agency obligation repurchase agreements; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution; commercial paper rated at the time of purchase at the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; bankers' acceptances of United States banks; obligations of the state or any of its political subdivisions that, at the time of purchase, are rated as investment grade by not less than one standard rating service; obligations described above if purchased through an interlocal agreement under the urban cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. Livingston County Road Commission's deposits and investments are in accordance with statutory authority and the provisions of PA 20 of 1943.

The cash and cash investments of the Road Commission are subject to various types of risk, which are examined in more detail below:

Custodial Credit Risk - deposits: Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an

Note 3. CASH AND CASH INVESTMENTS (Concluded)

investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's interest rate risk is minimized because the Livingston County Treasurer only invests Road Commission cash in short-term certificates of deposit and holds the certificates to maturity.

Concentration of Credit Risk: The Road Commission follows the investment policy of Livingston County. Livingston County's investment policy requires that it shall diversify its investments by security type and institution by allowing no more than 60 percent of the total investment portfolio to be invested in a single security type, or with a single financial institution. Livingston County Road Commission has no investments, as all of its funds are deposited in certificates of deposit, savings accounts, and checking accounts by the Livingston County Treasurer.

At year end, Livingston County Road Commission had bank deposits of \$2,886,573. The difference of \$694,382 between the bank deposit balance and the carrying value of \$2,192,191 represents checks written but not yet cashed at year end, petty cash, and unrecognized interest income.

Livingston County Road Commission has one investment with a local bank in the amount of \$50,000. This amount is fully FDIC insured. The balance of Livingston County Road Commission's cash is combined with all of Livingston County's cash and investments. Because of this, the amount, if any, of Livingston County Road Commission funds that are covered by federal depository insurance of \$100,000 per financial institution, is not determinable. Any balance not covered by federal depository insurance is uninsured and uncollateralized.

Neither the Road Commission nor Livingston County has experienced a loss on investments due to bank failure. Therefore, the Road Commission considers its custodial credit risk to be minimal.

Note 4. ACCOUNTS RECEIVABLE/DEFERRED REVENUE

The accounts receivable (and deferred revenue) recorded in the Road Commission's Statement of Net Assets (and the Balance Sheet) can be summarized as follows:

	Accounts Receivable	Deferred Revenue
State highway - other	\$1,893,123	-
Due on county road agreements	827,583	449,834
Due on special assessments	192,042	192,042
Sundry accounts	107,078	-
	<u>\$3,019,826</u>	<u>641,876</u>

Note 5. CAPITAL ASSETS

A summary of capital asset activity follows:

	Restated Balance (Note 17) January 1, 2006	Additions	Deletions	Balance December 31, 2006
Capital Assets Not Being Depreciated:				
Land and improvements	\$ 267,939	-	-	267,939
Land easements/right of way	24,212,908	851,869	-	25,064,777
Subtotal	24,480,847	851,869	-	25,332,716
Capital Assets Being Depreciated:				
Buildings	6,998,316	10,107	-	7,008,423
Road equipment	8,664,095	893,136	659,656	8,897,575
Shop equipment	193,060	2,140	-	195,200
Office equipment	417,177	43,695	-	460,872
Engineering equipment	110,472	-	-	110,472
Yard and storage	71,497	-	-	71,497
Infrastructure-roads	125,572,766	13,336,369	-	138,909,135
Infrastructure-bridges	12,636,829	1,117,102	-	13,753,931
Depletable assets	488,543	-	-	488,543
Subtotal	155,152,755	15,402,549	659,656	169,895,648
Less Accumulated Depreciation:				
Buildings	2,139,584	150,754	-	2,290,338
Road equipment	6,301,873	803,520	659,656	6,445,737
Shop equipment	179,659	4,089	-	183,748
Office equipment	354,588	28,043	-	382,631
Engineering equipment	79,461	6,531	-	85,992
Yard and storage	42,712	5,667	-	48,379
Infrastructure-roads	57,134,024	6,336,294	-	63,470,318
Infrastructure-bridges	2,308,851	258,733	-	2,567,584
Depletable assets	118,985	-	-	118,985
Subtotal	68,659,737	7,593,631	659,656	75,593,712
Net Capital Assets Being Depreciated	86,493,018	7,808,918	-	94,301,936
Total Net Capital Assets	\$110,973,865	8,660,787	-	119,634,652

The amount of depreciation (on all assets except infrastructure) distributed to the various accounts of Livingston County Road Commission is as follows:

Equipment expense - direct	\$ 804,653
Equipment expense - indirect	167,427
Administrative	26,524
Total depreciation expense	\$ 998,604

Note 6. NET CAPITAL OUTLAY

In the Fund Financial Statements, Livingston County Road Commission follows the accounting principle generally accepted in the United States of America for Road Commissions of charging depreciation expense to various expenditure accounts as listed in Note 5. The offsetting entry is to credit a depreciation account which is offset against capital outlay for report purposes. Actual capital outlay and current depreciation for 2006 were \$763,783 and \$998,604, respectively, resulting in a net capital outlay credit of \$234,821.

Note 7. ACCUMULATED VACATION AND SICK LEAVE

Vacation is earned in varying amounts depending on the number of years of service of an employee and is made available to the employee at the beginning of each calendar year, not to exceed a total accumulation of 30 days.

Sick leave is accumulated at the rate of one day for each month of service, not to exceed a total accumulation of 60 days.

Note 7. ACCUMULATED VACATION AND SICK LEAVE (Concluded)

It is the policy of the Road Commission to pay unused vacation pay at death, retirement or voluntary resignation up to an amount not to exceed 30 days; sick pay is payable up to 35 days when an employee retires or dies. Board policy states that no payment is to be made for unused sick leave upon separation of employment except by retirement or death.

Total accumulated vacation and sick leave has been recorded in the Statement of Net Assets. At December 31, 2006, accumulated vacation and sick leave due to employees at retirement was \$188,231 and \$188,494, respectively.

Note 8. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended December 31, 2006:

	Balance January 1, 2006	Net Additions (Deductions)	Balance December 31, 2006
1995 capital lease payable to Livingston County, due in variable semi-annual installments through July 1, 2008, interest ranging from 4.25% to 5.8%, liability shown net of interest	\$1,330,000	(415,000)	915,000
2001 capital lease payable to Livingston County, due in variable semi-annual installments through July 1, 2010, interest ranging from 3.2% to 4.35%, liability shown net of interest	1,110,000	-	1,110,000
Special assessment payable, payable in annual installments of \$9,456 through 2008, including interest at 8.08%	22,747	(7,658)	15,089
Livingston County, 1999 Michigan Transportation Fund Notes, dated August 1, 1999, payable in annual installments of \$95,000 through 2009, plus interest ranging from 5.0% to 6.49%	380,000	(95,000)	285,000
Livingston County, 2001 Michigan Transportation Fund Notes dated July 1, 2001, payable in annual installments of \$170,000 through 2011, plus interest ranging from 4.0% to 4.35%	1,020,000	(170,000)	850,000
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$8,748, including interest at 3.0%, through 2006, remaining balance due 2007, secured by equipment	127,139	(4,984)	122,155
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$31,061, including interest at 4.75%, through 2009, remaining balance due 2010, secured by equipment	190,076	(22,033)	168,043
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$31,061, including interest at 4.75%, through 2009, remaining balance due 2010, secured by equipment	190,076	(22,033)	168,043
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$31,061, including interest at 4.75%, through 2009, remaining balance due 2010, secured by equipment	190,076	(22,033)	168,043
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$31,061, including interest at 4.75%, through 2009, remaining balance due 2010, secured by equipment	190,076	(22,033)	168,043
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$58,882, including interest at 3.50%, through 2006, remaining balance due 2007, secured by equipment	56,745	-	56,745
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$21,931, including interest at 5.1%, through 2010, remaining balance due 2011, secured by equipment	-	163,364	163,364
Accrued compensated absences	377,063	(338)	376,725
	<u>\$5,183,998</u>	<u>(617,748)</u>	<u>4,566,250</u>

Note 8. LONG-TERM DEBT (Concluded)

The current and long-term portions of Livingston County Road Commission's long-term debt are summarized below:

	<u>Due within one year</u>	<u>Due after one year</u>
1995 capital lease payable to Livingston County	\$ 445,000	470,000
2001 capital lease payable to Livingston County	-	1,110,000
Special assessment payable Livingston County, 1999 Michigan Transportation Fund Notes	8,237	6,852
Livingston County, 2001 Michigan Transportation Fund Notes	95,000	190,000
Caterpillar Financial Services Corporation, capital lease	170,000	680,000
Caterpillar Financial Services Corporation, capital lease	23,079	144,964
Caterpillar Financial Services Corporation, capital lease	23,079	144,964
Caterpillar Financial Services Corporation, capital lease	23,079	144,964
Caterpillar Financial Services Corporation, capital lease	23,079	144,964
Caterpillar Financial Services Corporation, capital lease	13,599	149,765
Caterpillar Financial Services Corporation, capital lease	56,745	-
Caterpillar Financial Services Corporation, capital lease	122,155	-
Accrued compensated absences	376,725	-
	<u>\$1,379,777</u>	<u>3,186,473</u>

The annual requirements to amortize all debt outstanding as of December 31, 2006 (plus interest payments of \$506,140) are as follows:

2007	\$1,379,777
2008	852,845
2009	926,318
2010	1,132,648
2011	274,662
	<u>\$4,566,250</u>

Aggregate maturities of the capital lease obligations are shown in Note 9.

As of December 31, 2006, Livingston County Road Commission was not liable for any short-term debt.

Note 9. CAPITAL LEASE OBLIGATIONS

Livingston County Road Commission entered into a long-term lease agreement with Livingston County for financing construction of a new facility for the Road Commission. The lease provides for semi-annual payments in amounts sufficient to meet annual debt service requirements on bonds issued by the Livingston County Building Authority. The bonds have been pledged with the full faith and credit of Livingston County. The Livingston County Building Authority leases the building to Livingston County which, in turn, sub-leases the building to the Road Commission. The Road Commission is responsible for all costs associated with the building including repairs, maintenance, assessments and utilities. Since the lease is a financing arrangement which transfers ownership of the facility to the Road Commission at the conclusion of the lease term, related transactions have been recorded in the appropriate funds. Debt service payments on the long-term debt are recorded in the Debt Service Fund.

Lease obligations are reported in the Statement of Net Assets. Capital outlay for the new facility is included in the Capital Assets as follows:

Fixed Asset Accounts:

Land	\$ 70,070
Buildings	6,113,249
Shop equipment	96,162
Office equipment	135,011
Engineering equipment	12,333
Yard and storage	<u>20,909</u>
Total fixed asset accounts	<u>6,447,734</u>

Accumulated Depreciation:

Buildings	2,064,220
Shop equipment	96,162
Office equipment	135,011
Engineering equipment	12,333
Yard and storage	<u>20,909</u>
Total accumulated depreciation	<u>2,328,635</u>
Net capital lease assets	<u>\$4,119,099</u>

Note 9. CAPITAL LEASE OBLIGATIONS (Continued)

Future minimum lease payments to be paid by Livingston County Road Commission to Livingston County for the building capital lease are as follows:

2007	\$ 535,115
2008	533,580
2009	594,950
2010	590,425
Total minimum lease payments	<u>2,254,070</u>
Less amounts representing interest, 4.5% to 5.8%	<u>229,070</u>
Present value of future minimum lease payments (included in Note 8)	<u>\$2,025,000</u>

During 2002, Livingston County Road Commission entered into a capital lease agreement with Caterpillar Financial Services Corporation for the lease of a motor grader. The lease agreement will transfer ownership of the equipment to Livingston County Road Commission at the end of the lease term.

During 2005, Livingston County Road Commission entered into five capital lease agreements with Caterpillar Financial Services Corporation for the lease of five motor graders. The lease agreements will transfer ownership of the equipment to Livingston County Road Commission at the end of the lease terms.

During 2006, Livingston County Road Commission entered into a capital lease agreement with Caterpillar Financial Services for the lease of a motor grader. The lease agreement will transfer ownership of the equipment to Livingston County Road Commission at the end of the lease term.

Capital outlay for the motor graders is included in the Livingston County Road Commission government-wide Statement of Net Assets in the amount of \$1,400,327. Accumulated depreciation on the motor graders at year end was \$513,586, resulting in a net book value of \$886,741.

Note 9. CAPITAL LEASE OBLIGATIONS (Concluded)

Future minimum lease payments to be paid by Livingston County Road Commission on the leased equipment are as follows:

2007	\$ 330,743
2008	146,175
2009	146,175
2010	421,931
2011	110,000
Total minimum lease payments	<u>1,155,024</u>
Less amounts representing interest at 3.0% to 5.1%	<u>140,588</u>
Present value of future minimum lease payments (included in Note 8)	<u>\$1,014,436</u>

Note 10. PENSION PLAN

A. Plan Description

Livingston County Road Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by 2.25 percent times the final average compensation (FAC), with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Note 10. PENSION PLAN (Concluded)

B. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Livingston County Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. Livingston County Road Commission is required to contribute at an actuarially determined rate. During 2006, the rate was 12.66%. The rate was based on the 2004 actuarial valuation. Effective January 1, 2007, the rate will decrease to 12.46% based on the 2005 actuarial valuation.

C. Annual Pension Cost

During the fiscal year ended December 31, 2006, Livingston County Road Commission's contributions totaling \$425,087 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

D. Three Year Trend Information

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$376,746	100%	None
2005	395,430	100	None
2006	425,087	100	None

E. Required Supplementary Information - Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$11,937,158	\$14,575,528	\$2,638,370	81.9%	\$3,674,265	71.8%
12/31/05	12,540,449	14,941,095	2,400,646	83.9	3,507,511	68.4
12/31/06	13,402,826	14,998,828	1,596,002	89.4	3,376,715	47.3

Note 11. RISK MANAGEMENT

Livingston County Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as benefits provided to employees. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for general liability, auto liability, errors and omissions, building and contents, equipment physical damage, and employee benefit programs. The employee benefits program provides coverage for group life insurance, group accident or health insurance, workers' compensation, unemployment, and disability insurance. In addition, the Road Commission has purchased a commercial health insurance policy to cover medical and sick benefits. The Road Commission is insured for environmental cleanup losses relating to the underground fuel storage tanks. The Road Commission is uninsured for acts of God.

The Michigan County Road Commission Self-Insurance Pool operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase insurance coverage and pay member claims in excess of deductible amounts. The Road Commission currently has a \$1,000 deductible for each automobile liability occurrence, \$2,500 deductible for each error and omission liability occurrence, and a \$5,000 deductible for each and every loss incurred on the remaining lines of coverage. The risk pool's coverage will pay losses up to \$10,500,000 per occurrence. Any liability for losses which exceed this amount would remain with the Road Commission. Livingston County Road Commission has never incurred any losses which have exceeded the insured amount; therefore, an adjustment for incurred but not reported claims has not been accrued.

Note 12. OTHER POSTRETIREMENT BENEFITS

In addition to the pension benefits described in Note 10, the Road Commission provides postretirement health care benefits to all employees who retire from the Road Commission, in accordance with the agreement between the Board of County Road Commissioners and the American Federation of State, County, and Municipal Employees Council #25 AFL-CIO Local #1071. Currently, there are thirty-six retirees. The Road Commission provides health insurance coverage for retirees on a "pay as you go" basis. If spousal coverage is elected, the retiree must bear the cost of the insurance premiums for the spouse. Expenditures for postretirement health insurance are recognized when the premiums are paid. Expenditures of \$244,495 were recognized during 2006 for postretirement health insurance premiums. This amount is net of retiree reimbursements during 2006 of \$110,075.

Note 13. CONTINGENT LIABILITIES

Livingston County Road Commission has been served in civil actions brought against it seeking damages from matters within the geographical limits of Livingston County. In the opinion of the administration and its corporation counsel, the settlement of these civil actions should have no material effect upon the financial position of the Road Commission.

Note 14. LEASE AGREEMENT WITH LIVINGSTON COUNTY

During 2002, Livingston County Road Commission entered into an agreement to lease land to Livingston County for the purpose of constructing an ambulance station on Livingston County Road Commission premises. The lease agreement is for a term of twenty years, with the option to renew for an additional twenty years at the lessee's sole option and an additional twenty years beyond that upon mutual agreement by both parties. Lease income for the lease term is \$1 per year.

Note 15. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

The approved budget of Livingston County Road Commission is adopted to the activity level. During the year, expenditures incurred in excess of amounts appropriated were as follows:

<u>Activity Level</u>	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
Primary road	\$6,050,000	6,422,478	372,478
Local road	7,942,000	9,117,248	1,175,248

Note 16. FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2006, the Federal grants received and expended by the Road Commission were \$1,898,184 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. These contracted projects are included in MDOT's single audit. Livingston County Road Commission is not subject to single audit requirements.

NOTES TO FINANCIAL STATEMENTS (Concluded)

Note 17. PRIOR PERIOD ADJUSTMENT

During 2006, the amount of infrastructure and right-of-way that has been dedicated to the Road Commission by various subdivisions throughout Livingston County between 1980 and 2005 was determined. The prior period adjustment reflects the net book value of this dedicated infrastructure as of December 31, 2005, and also reclassifies the net book value of road infrastructure that had previously been reported as bridge infrastructure.

LIVINGSTON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES
BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND
For the Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
State Grants:				
Michigan Transportation Fund				
Engineering	\$ 10,000	10,000	10,000	-
Primary urban road	1,238,178	1,257,803	1,257,803	-
Local urban road	596,500	613,902	613,902	-
Primary road	6,952,304	7,148,751	7,148,751	-
Local road	3,142,514	3,226,249	3,226,249	-
Highway construction - critical bridge	983,765	24,526	108,532	84,006
Economic development	65,000	-	-	-
Federal Grants:				
Secondary	1,085,567	712,936	1,744,788	1,031,852
Critical bridges	148,000	153,396	153,397	1
Charges for Services	10,000	28,512	32,012	3,500
Contributions:				
Local units	1,848,071	3,561,450	3,186,507	(374,943)
Private sources	660,000	235,031	573,982	338,951
Special Assessments	25,382	36,395	36,395	-
Interest Income	39,000	34,819	34,819	-
Investment Income	40,000	128,600	128,600	-
Proceeds from Disposal of Assets	10,000	82,504	82,504	-
Other Revenues:				
Permits	100,000	79,200	79,200	-
Maps	-	27	27	-
Accident claims	-	150	-	(150)
Miscellaneous	3,000	6,665	182,951	176,286
Total Revenues	16,957,281	17,340,916	<u>18,600,419</u>	<u>1,259,503</u>
Fund Balance - January 1, 2006	<u>1,508,301</u>	<u>1,587,609</u>		
Total Budget	<u>\$ 18,465,582</u>	<u>18,928,525</u>		

LIVINGSTON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF EXPENDITURES
BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND
For the Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 2,905,885	2,805,000	3,238,993	(433,993)
Routine maintenance	4,000,000	3,245,000	3,183,485	61,515
	<u>6,905,885</u>	<u>6,050,000</u>	<u>6,422,478</u>	<u>(372,478)</u>
Local Road:				
Heavy maintenance	2,387,115	3,927,000	5,190,915	(1,263,915)
Routine maintenance	4,100,000	4,015,000	3,926,333	88,667
	<u>6,487,115</u>	<u>7,942,000</u>	<u>9,117,248</u>	<u>(1,175,248)</u>
Primary Road Structures:				
Heavy maintenance	1,300,000	973,500	931,341	42,159
Routine maintenance	50,000	19,800	18,134	1,666
	<u>1,350,000</u>	<u>993,300</u>	<u>949,475</u>	<u>43,825</u>
Local Road Structures:				
Heavy maintenance	230,000	225,500	185,762	39,738
Routine maintenance	40,000	28,600	26,354	2,246
	<u>270,000</u>	<u>254,100</u>	<u>212,116</u>	<u>41,984</u>
Roadside Parks:				
Maintenance	<u>11,000</u>	<u>10,000</u>	<u>5,286</u>	<u>4,714</u>
Equipment Expense - Net				
Direct	1,672,125	1,386,167	1,383,250	2,917
Indirect	1,250,266	1,521,486	1,518,333	3,153
Operating	450,000	391,000	421,415	(30,415)
Less: Equipment rental	<u>(3,372,391)</u>	<u>(2,713,000)</u>	<u>(2,742,492)</u>	<u>29,492</u>
	<u>-</u>	<u>585,653</u>	<u>580,506</u>	<u>5,147</u>
Administrative Expense	<u>851,776</u>	<u>1,140,000</u>	<u>744,706</u>	<u>395,294</u>
Capital Outlay - Net				
Capital outlay	692,680	769,205	763,783	5,422
Less: Depreciation and depletion	<u>(800,000)</u>	<u>(1,001,677)</u>	<u>(998,604)</u>	<u>(3,073)</u>
	<u>(107,320)</u>	<u>(232,472)</u>	<u>(234,821)</u>	<u>2,349</u>
Debt Service:				
Principal retirement	398,093	387,831	387,703	128
Interest and fiscal charges	<u>103,865</u>	<u>104,660</u>	<u>104,788</u>	<u>(128)</u>
	<u>501,958</u>	<u>492,491</u>	<u>492,491</u>	<u>-</u>
Total Expenditures	\$ <u>16,270,414</u>	<u>17,235,072</u>	<u>18,289,485</u>	<u>(1,054,413)</u>

LIVINGSTON COUNTY ROAD COMMISSION
 REQUIRED SUPPLEMENTARY INFORMATION
 STATEMENT OF OTHER FINANCING USES
 BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND
 For the Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
Operating Transfer Out:				
Debt Service Fund	\$ 548,020	530,830	530,830	-
Total Expenditures and Other Financing Uses	16,818,434	17,765,902	<u>18,820,315</u>	<u>(1,054,413)</u>
Fund Balance - December 31, 2005	<u>1,647,148</u>	<u>1,162,623</u>		
Total Budget	\$ <u>18,465,582</u>	<u>18,928,525</u>		

LIVINGSTON COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES

SPECIAL REVENUE FUND
For the Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total Revenues	\$ 9,606,542	8,465,821	528,056	18,600,419
Total Expenditures	<u>8,017,339</u>	<u>10,321,181</u>	<u>481,795</u>	<u>18,820,315</u>
Excess (Deficiency) of Revenues over (under) Expenditures	1,589,203	(1,855,360)	46,261	(219,896)
Fund Balance - January 1, 2006	3,487,484	-	2,054,485	5,541,969
Interfund Transfers	<u>(1,834,904)</u>	<u>1,855,360</u>	<u>(20,456)</u>	<u>-</u>
Fund Balance - December 31, 2006	<u>\$ 3,241,783</u>	<u>-</u>	<u>2,080,290</u>	<u>5,322,073</u>

LIVINGSTON COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES

SPECIAL REVENUE FUND
For the Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
State Grants:				
Michigan Transportation Fund:				
Engineering	\$ 6,891	3,109	-	10,000
Urban road	1,257,803	613,902	-	1,871,705
Allocation	7,148,751	3,226,249	-	10,375,000
Highway construction - critical bridge	88,140	20,392	-	108,532
Federal Grants:				
Secondary	432,262	1,312,526	-	1,744,788
Bridge	50,261	103,136	-	153,397
Charges for Services	-	-	32,012	32,012
Contributions from Local Units	-	3,186,507	-	3,186,507
Contributions from Private Sources	573,982	-	-	573,982
Special Assessments	36,395	-	-	36,395
Interest Income	12,057	-	22,762	34,819
Investment Income	-	-	128,600	128,600
Proceeds from Disposal of Assets	-	-	82,504	82,504
Other Revenue:				
Permits	-	-	79,200	79,200
Maps	-	-	27	27
Miscellaneous	-	-	182,951	182,951
Total Revenues	\$ 9,606,542	8,465,821	528,056	18,600,419

LIVINGSTON COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES

SPECIAL REVENUE FUND
For the Year Ended December 31, 2006

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission Fund</u>	<u>Total</u>
Primary Road:				
Heavy maintenance	\$ 3,238,993	-	-	3,238,993
Maintenance	3,183,485	-	-	3,183,485
Local Road:				
Heavy maintenance	-	5,190,915	-	5,190,915
Maintenance	-	3,926,333	-	3,926,333
Primary Road Structures:				
Heavy maintenance	931,340	-	-	931,340
Maintenance	18,134	-	-	18,134
Local Road Structures:				
Heavy maintenance	-	185,762	-	185,762
Maintenance	-	26,354	-	26,354
Roadside Parks:				
Maintenance	5,286	-	-	5,286
Equipment Expense - Net	200,101	366,648	13,758	580,507
Administrative Expense	325,700	411,884	7,122	744,706
Capital Outlay - Net	-	-	(234,821)	(234,821)
Debt Service:				
Principal retirement	95,000	170,000	537,703	802,703
Interest and fiscal charges	19,300	43,285	158,033	220,618
Total Expenditures	\$ <u>8,017,339</u>	<u>10,321,181</u>	<u>481,795</u>	<u>18,820,315</u>

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July 17, 2007

To the Board of County Road Commissioners,
Michael Craine, Managing Director, and
Donald Kuchnicki, Director of Finance and Policy of
Livingston County Road Commission
Livingston County, Michigan

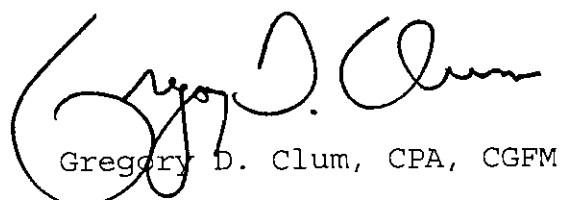
In planning and performing our audit of the financial statements of Livingston County Road Commission for the year ended December 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. A separate report dated July 17, 2007, contains our report on significant deficiencies and material weaknesses in the Road Commission's internal control. This letter does not affect our report dated June 18, 2007, on the financial statements of Livingston County Road Commission.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with various Road Commission personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Yours truly,

BREDERNITZ, WAGNER & CO., P.C.



Gregory D. Clum, CPA, CGFM

To the Board of County Road Commissioners,
Michael Craine, Managing Director, and
Donald Kuchnicki, Director of Finance and Policy of
Livingston County Road Commission
Livingston County, Michigan
Page 2

STATUS OF PRIOR YEARS' RECOMMENDATIONS

BUDGETING

We noted some expenditures in excess of the budgeted amounts. This is contrary to Public Act 621 which requires that budgeted expenditures be equal to or exceed actual expenditures.

Status: There was no change in this condition.

INFRASTRUCTURE

The roads dedicated to Livingston County Road Commission were not included in the GASB 34 infrastructure listing.

Status: This condition has been corrected.

ACT 51 REPORT

In the past, the Road Commission has had difficulty in meeting the extended filing deadline for the Act 51 report.

Status: This condition has improved. The Act 51 was filed by the extended due date.

INTERNAL CONTROL PROCEDURES

ACCOUNTING RECORDS

A general ledger report was not printed for a certain month.

Status: This situation has been addressed. In October 2006, the Road Commission began implementing procedures that would provide for the monthly review of the general ledger. During 2006, the Road Commission also engaged an off-site mirror imaging service that backs-up the Road Commission data on a daily basis.

To the Board of Road Commissioners,
Michael Craine, Managing Director, and
Donald Kuchnicki, Director of Finance and Policy of
Livingston County Road Commission
Livingston County, Michigan
Page 3

STATUS OF PRIOR YEARS' RECOMMENDATIONS (continued)

INTERNAL CONTROL PROCEDURES (continued)

INVESTMENTS

During the year ended December 31, 2005, an investment account was opened at a local bank which listed Road Commission personnel as the sole authorized signer.

Status: This situation has been corrected. The Livingston County Treasurer is now an authorized signer on this account.

PAYROLL

During the performance of our audit procedures, it was observed that an employee was given another employee's check to deliver to that employee.

Status: This situation has been addressed. During the 2006, the Road Commission implemented a payroll policy which specifies the conditions for payroll check distribution.

During payroll testing, we noticed that payroll deductions and withholdings do not match the information in the payroll file for some employees.

Status: This condition has been corrected. No instances were noted during the current year audit. The Road Commission needs to continue its diligence in ensuring that all information (W-4's, MI W-4's, wage rates, deductions, etc.) in the personnel payroll files is complete and up-to-date.

COMPUTER CONTROLS

We noted a few instances in which revenues were recorded in expense accounts and expenses were recorded in revenue accounts.

Status: We found similar instances that occurred during the current year audit. Care should be taken to ensure that amounts are properly recorded in the correct accounts. This will help ensure accurate financial data needed for budgeting and analytical purposes.

To the Board of Road Commissioners,
Michael Craine, Managing Director, and
Donald Kuchnicki, Director of Finance and Policy of
Livingston County Road Commission
Livingston County, Michigan
Page 4

STATUS OF PRIOR YEARS' RECOMMENDATIONS (concluded)

INTERNAL CONTROL PROCEDURES (concluded)

COMPUTER CONTROLS (concluded)

We found that an adjustment was made through the receipts journal component of the computer system.

Status: No instances were noted during the current year audit.

CURRENT YEAR RECOMMENDATIONS

INTERNAL CONTROLS

We noted that the pay rate used to calculate the accrued sick and vacation liability was too high.

Pay raises became effective January 1, 2007. The first payroll in January 2007 (which covered part of December 2006 and January 2007) was used to calculate the December 31, 2006 accrued sick and vacation liability. However, because this pay period contained 2006 and 2007 rates of pay, the "average" rate of pay for that pay period was too high. The accrued sick and vacation liability needs to be determined using the pay rates in effect on December 31ST.

While in the process of converting to the new Precision software, current vendors and vendors with transaction history were deleted.

In order to aid the Road Commission in account analysis, the deleted vendor information should be restored. Steps have been taken to restore this data.

We noted that some revenues, expenses, and General Long Term Debt Account Group activity were not classified correctly.

Every effort should be made to ensure that all items are recorded in the proper accounts. This will aid in financial reporting, analysis, and budgeting.

We noted that the fees charged on the direct deposit account were not recorded.

In order to have an accurate cash balance on the distribution report, the fees charged on the direct deposit account need to be recorded. Steps have been taken to address this issue.

To the Board of Road Commissioners,
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CURRENT YEAR RECOMMENDATIONS (concluded)

INTERNAL CONTROLS (concluded)

During 2006, it was discovered that an underpayment of principal on the White Lake Special Assessment District had occurred, resulting in an overpayment of interest. This interest overpayment has been applied towards the principal balance.

In order to prevent any further overpayments of interest on the White Lake Special Assessment, all early pay-offs will need to be determined on a case-by-case basis. We are available to provide assistance in this area.

FINANCIAL REPORTING

For the year ended December 31, 2007, the Road Commission will become subject to the disclosure requirements of GASB Statement No. 45.

Under the requirements of GASB Statement No. 45, the Road Commission will need to disclose the unfunded liability for other post-employment benefits (health benefits) due to retirees and current employees eligible for post-employment benefits after their retirement. For the disclosure requirement to be met, the Road Commission will need an actuarial determination of the unfunded liability or will need to calculate the unfunded liability using the alternative measurement method available to those entities that have less than 100 participants. Road Commission personnel have made contact with an actuary to begin this process.

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To the Board of Road Commissioners,
Michael Craine, Managing Director, and
Donald Kuchnicki, Director of Finance and Policy of
Livingston County Road Commission

In planning and performing our audit of the financial statements of the governmental activities of Livingston County Road Commission (the Organization) as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control of financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses (terms defined below). However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

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SIGNIFICANT DEFICIENCIES

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider these control deficiencies to be significant deficiencies in internal control.

CURRENT YEAR SIGNIFICANT DEFICIENCIES

FIXED ASSETS

We noted that the capitalization policy of \$5,000 needs to be clarified.

In order for the capitalization policy to be applied in a consistent manner, the Road Commission needs to clarify the policy regarding groups of assets that individually cost less than \$5,000, but when aggregated exceed this amount. A clarification of the policy will allow all of the different departments to apply the capitalization policy in a consistent manner.

RECEIVABLES

We noted that an amount that pertained to 2007 had been recorded as part of the December 31, 2006 Due on County Road Agreements.

In order to have accurate account balances, care needs to be taken to ensure that revenues and receivables are established in the correct year.

MATERIAL WEAKNESSES

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control. We consider these control deficiencies to constitute material weaknesses in internal control.

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STATUS OF PRIOR YEARS' MATERIAL WEAKNESSES

CASH

We found that the cash balance per the distribution report did not agree with the cash balance per the Livingston County Treasurer.

Status: Road Commission personnel implemented procedures during the year 2006 to reconcile with the County Treasurer's balance on a monthly basis.

INTERNAL CONTROLS

During our review of the computer controls, we found that the computer program allows the user to delete entries.

Status: Effective April 1, 2007, the Road Commission began using different computer software which restricts deletion of data.

The assets and liabilities reported on the distribution report are not being reviewed on a regular basis.

Status: This situation has been addressed. In October 2006, the Road Commission began implementing procedures to provide for the monthly review of the distribution report.

Internal review and monitoring procedures are an integral part of an entity's internal control, as is the follow-up and correction of noted errors and/or misclassifications.

Some of the errors that we noted during the current year audit are as follows:

- a. Account payables were not recorded.
- b. A major federal aid project was not recorded.
- c. The Due to State account required a large audit adjustment.
- d. Current additions, disposals, and depreciation were not recorded in the General Fixed Asset Account Group.
- e. Not all of the current activity in the General Long Term Debt Account Group was recorded.

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STATUS OF PRIOR YEARS' MATERIAL WEAKNESSES (concluded)

The assets and liabilities reported on the distribution report are not being reviewed on a regular basis. (concluded)

As previously discussed, implementation of a distribution report review process should help eliminate errors and discrepancies. Any errors noted during the review should be investigated and corrected as soon as possible.

CURRENT YEAR MATERIAL WEAKNESSES

FINANCIAL REPORTING

The Livingston County Road Commission does not maintain a GASB 34 fund and Road Commission staff does not possess the specialized training required to prepare financial statements and disclosure footnotes in compliance with generally accepted accounting principles and Governmental Accounting Standards Board Statement No. 34.

In order to mitigate these conditions, the Road Commission is planning on engaging a local accounting firm to assist them with accounting, GASB 34 compliance, and external financial reporting matters.

The inventory balances per the distribution report and the inventory status reports do not agree.

It is important that an accurate inventory balance is available at all times. The inventory status reports should be reconciled to the general ledger at the end of every month so that any differences can be reconciled in a timely manner. Since implementing the new computer software in April 2007, the Road Commission has taken steps to reconcile the inventory status reports with the general ledger on a periodic basis.

The size of the Road Commission's staff precludes optimal segregation of duties.

Because complete segregation of duties is not possible, the Board of County Road Commissioners remains actively involved in the financial affairs of the Road Commission in order to provide oversight. Among other forms of involvement, the Board of County Road Commissioners reviews and approves the listing of expenses to be paid, approves road projects and road maintenance agreements, and is kept apprised of personnel and payroll matters.

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In addition to the significant deficiencies and material weaknesses noted above, we noted other matters involving the Road Commission's internal control and its operation that we have reported to the management of Livingston County Road Commission in a separate letter dated July 17, 2007.

This communication is intended solely for the use of management, the Board of County Road Commissioners, others within the Road Commission, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Bredemitt, Wagner & Co., P.C.

Howell, Michigan
July 17, 2007